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THE SECRETARY OF THE TREASURY
WASHINGTON

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November 30, 1982

MEMORANDUM FOR THE HONORABLE
WILLIAM P. CLARK
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS

FROM: Donald T. Regan *DR*
SUBJECT: Summary of SIG-IEP Alternative Energy Discussion

As requested in your memorandum of October 14, I would like to give you a report on the SIG-IEP discussions on reducing Allied dependency on Soviet energy. The Group is agreed that the Soviets can capture a significant part of the European gas market beyond that contemplated for one Siberian strand. Alternatives, such as Norway's Troll field, are more expensive, have longer lead time and are technically challenging. Given the potential to reap hard currency earnings from gas which are comparable to their total payments for hard currency imports last year, the Soviet Union will have every incentive to offer low prices and lucrative equipment contracts to gain a greater share of the European gas market. Against this setting, the SIG-IEP strongly supports the recommendations of the International Energy Security Group that we urge our Allies to limit their gas purchases and to accelerate alternatives, particularly the Troll field. To carry out this objective, the International Energy Agency should be urged to complete its natural gas security study in a timely manner. This effort, coupled with the Allied energy studies called for in the Summary of Conclusions of the East-West accord, should provide the technical underpinnings for a political commitment to reduce dependency on Soviet energy by the time of the Williamsburg Summit. I think that it would also be useful if the very sobering analysis prepared by the CIA on Western European Gas Markets and Alternatives could be sanitized and shared with our Allies. The SIG-IEP will continue to monitor carefully the various energy studies and consultations with our Allies as is directed in NSDD-66.

The International Energy Security Group also recommended a number of domestic measures, many of which make good economic sense domestically as well as internationally. The SIG-IEP gave a firm vote of approval to the proposal to phase

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in complete decontrol of natural gas by 1985. They were also sympathetic to the suggestions to increase energy exports -- such as coal -- as a means to improve U.S. trade balances over the longer term. While these actions are not short-term remedies to the problem of Soviet gas dependency, they can improve world energy markets over the longer term, and they would most certainly give a boost to our credibility in future negotiations with the Allies who have from the start urged us to get our own house in order before lecturing to them about gas security.

We had a very good preliminary discussion on Alaskan oil export to Japan. I found no serious objection to pursuing this idea, so I have asked Allen Wallis to convene a small working group on the issue. I hope that we can provide a proposal for your consideration early next year.

The discussion revealed continuing Cabinet interest in the issue of finding solutions to ever-increasing European reliance on Soviet energy. But the road ahead with our Allies is likely to be a difficult one. With one foot in the door, the Soviets can become the marginal supplier of gas to Europe. The burden is now on the alternate suppliers who face higher costs and more technically challenging projects. Our actions at home can improve world markets over the longer term and increase our credibility, but they are not short-term fixes. The real answer lies in development of the giant Troll field in Norway. Development of this field will preclude further reliance on Soviet gas until well into the next century. It is here where we should put our emphasis in talks with the Allies over the coming months.

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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

NIC #9658-82
29 November 1982

MEMORANDUM FOR THE RECORD

SUBJECT: SIG-IEP Meeting, 29 November 1982

25X1 1. This meeting was chaired by Secretary Regan. Harry Rowen, [redacted] (DDI/OGI) and I attended. The meeting dealt with: East European debt; energy alternatives to Soviet gas; organization of US policy for countries in financial distress; follow up to the Shultz "non-paper"; and the GATT Ministerial.

2. The principal East European debt issue concerns Yugoslavia. Secretary Regan feels strongly that the Europeans, not the US, should take the lead in developing the Yugoslavia aid package. State's attempt, via a separate SIG on Yugoslavia, to internally commit a US aid program in advance of negotiations with our Allies, appears to have failed.

25X1 3. Discussion of alternative energy sources was highlighted by [redacted] presentation on the role of Soviet and Norwegian gas in the future West European gas market. The presentation was well received and there was no disagreement. There was also discussion of wide-ranging possibilities for US energy actions, such as gas decontrol, coal port development, and sale of new oil and gas production to Japan. It was recognized that such actions would not significantly affect European demand for Soviet gas, except perhaps in the long term, but that they would make US policy positions on Soviet gas more credible. Several departments emphasized the high domestic political sensitivity of such possible issues as selling oil or gas to Japan.

4. Secretary Regan expressed his intention of using the SIG-IEP to coordinate US policy initiatives involving financially troubled countries. He proposes setting up regional groups, at least on Eastern Europe and Latin America, subordinate to the SIG-IEP to deal with these problems.

5. Four working groups will be established this week to follow up on the Shultz "non-paper" on East-West economic issues. Allen Wallis will be the general coordinator and will report to the SIG-IEP.

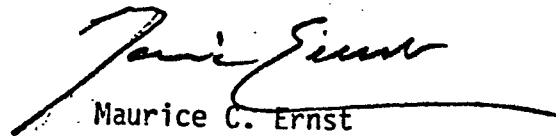
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6. Wallis gave a brief report on the GATT Ministerial. There was minimal progress, as reported in the press.


Maurice C. Ernst

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